



Utah Transit Authority

***Financial Statements for the Years Ended
December 31, 2005 and 2004, and Audit
Reports Required under the Single
Audit Act Amendments of 1966, for the
Year Ended December 31, 2005, and
Independent Auditors' Report***

UTAH TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Utah Transit Authority:

We have audited the accompanying financial statements of Utah Transit Authority (the "Authority") as of December 31, 2005 and 2004, and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Utah Transit Authority as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). This supplementary information is also the responsibility of the management of the Authority. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Authority, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2005, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in our audit of the basic 2005 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2005 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2005 audit.

Deloitte & Touche LLP

May 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Utah Transit Authority's, (the Authority), annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2005 and December 31, 2004.

Following this Management Discussion and Analysis are the basic financial statements of the Authority together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America, promulgated by the Governmental Accounting Standards Board. The Authority reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Condensed Statements of Net Assets (in thousands of dollars)

	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>Increase (Decrease) From 2004</u>	<u>Percent Increase/ Decrease</u>	<u>12/31/2003</u>
ASSETS:					
Current and other assets	\$132,788	\$131,261	1,527	1.16%	\$132,262
Restricted and designated assets	125,963	7,883	118,080	1497.91%	9,749
Capital assets	828,339	750,864	77,475	10.32%	754,811
Total assets	<u>1,087,090</u>	<u>890,008</u>	<u>197,082</u>	<u>22.14%</u>	<u>896,822</u>
LIABILITIES:					
Current liabilities	42,479	29,906	12,573	42.04%	34,531
Long term debt	420,223	248,797	171,426	68.90%	253,368
Total liabilities	<u>462,702</u>	<u>278,703</u>	<u>183,999</u>	<u>66.02%</u>	<u>287,899</u>
NET ASSETS:					
Invested in capital assets net of related debt	505,893	498,168	7,725	1.55%	499,926
Restricted for capital projects	---	---	---	---	2,199
Restricted for debt service	3,712	1,813	1,899	104.74%	1,710
Restricted for Insurance	128	125	3	2.40%	---
Unrestricted	114,655	111,200	3,455	3.11%	105,088
Total net assets	<u>\$624,388</u>	<u>\$611,306</u>	<u>\$13,082</u>	<u>2.14%</u>	<u>\$608,923</u>

During 2005 capital assets increased by approximately \$77.5 million primarily due to the start up of construction of the commuter rail line from Salt Lake to Ogden. (See notes to financials for more detail).

In connection with the construction of the commuter rail line, \$175 million of bonds were issued and this accounts for the increase of \$171.4 million in long term debt. (See notes to financials for more detail).

Approximately \$101 million of the bond proceeds have not been expended. These unexpended proceeds and the new bond fund are the reason for the increase of \$118 million of restricted and designated assets.

The \$12.5 million increase in current liabilities is due to large construction payables due at year end, interest payable on the new bond and an increase in advance pass sales.

During 2004 capital assets decreased approximately \$4 million. This is primarily due to approximately \$48 million in depreciation expense in 2004 offset by approximately \$44 million in assets purchased or constructed in 2004. (See notes to financials).

Current liabilities decreased by approximately \$4.6 million in 2004 due to large construction payables outstanding at 2003 year end for the medical center line and the Salt Lake intermodal center.

Long term debt's decrease of approximately \$4.6 million reflects the amount that has been paid on the outstanding bonds in 2004. (See notes to financials).

Net assets restricted for capital projects decreased by \$2.2 million. This was due to the use of all of these funds for the capital projects for which they were set aside.

Condensed Statements of Revenues, Expenses and Change in Net Assets
(in thousands of dollars)

	2005	2004	Increase (Decrease) From 2004	Percent Increase/ Decrease	2003
Operating revenues	\$22,240	\$21,341	\$899	4.21%	\$20,105
Operating expenses	176,884	179,747	-2,863	-1.59%	170,649
Excess of operating expenses over operating revenues	(154,644)	(158,406)	(\$3,762)	-2.37%	(150,544)
Non-operating revenues	155,148	145,106	10,042	6.92%	136,413
Non-operating expenses (interest)	(11,454)	(9,814)	\$1,640	16.71%	(10,276)
Loss before contributions	(10,950)	(23,114)	(\$12,164)	52.63%	(24,407)
Capital contributions	24,032	25,497	(1,465)	-5.75%	44,332
Change in net assets	13,082	2,383	\$10,699	448.97%	19,925
Total net assets beginning of year	611,306	608,923	2,383	0.39%	588,998
Total net asset end of year	<u>\$624,388</u>	<u>\$611,306</u>	<u>\$13,082</u>	<u>2.14%</u>	<u>\$608,923</u>

Summary of Revenues for the year ended December 31 :*(in thousands)*

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) From 2004</u>	<u>Percent Increase/ Decrease</u>	<u>2003</u>
Operating :					
Passenger revenue	\$21,283	\$20,074	\$1,209	6.0%	\$18,793
Advertising	<u>957</u>	<u>1,267</u>	<u>(310)</u>	<u>-24.5%</u>	<u>1,312</u>
Total operating	<u>22,240</u>	<u>21,341</u>	<u>899</u>	<u>4.2%</u>	<u>20,105</u>
Non-operating:					
Sales tax revenues	121,833	111,982	9,851	8.8%	103,869
Federal non capital assistance	28,466	31,209	(2,743)	-8.8%	29,588
Interest income	4,105	1,293	2,812	217.5%	2,225
Other	<u>744</u>	<u>622</u>	<u>122</u>	<u>19.6%</u>	<u>731</u>
Total non-operating	<u>155,148</u>	<u>145,106</u>	<u>10,042</u>	<u>6.9%</u>	<u>136,413</u>
Capital contributions	<u>24,032</u>	<u>25,497</u>	<u>(1,465)</u>	<u>-5.7%</u>	<u>44,332</u>
Total Revenues	<u>\$201,420</u>	<u>\$191,944</u>	<u>\$9,476</u>	<u>4.9%</u>	<u>\$200,850</u>

During 2005 passenger revenues increased by approximately \$1.2 million primarily due to an increase in passengers carried of 4.7% which was mainly in rail service and vanpool service. (see ridership comparison) Fares rates also were increased in 2005 from a base fare of \$1.35 to \$1.40 or 3.7%.

Advertising revenues show a 24% decrease in 2005. During 2005 advertising revenues did not meet expectations and when the contract was renewed, a new contractor was selected. There was also some revenue drop in the change over period.

Sales tax revenues continue to reflect the strong Utah economy with an increase of \$9.85 million or 8.8%.

The decrease in Federal non-capital contributions of approximately \$2.7 million reflects the transition from planning activities for the commuter rail line into the construction phase.

Interest income increased by approximately \$2.8 million due the unexpended bond funds which increased the cash invested and higher interest rates were received for the investments.

In 2004 passenger revenue increased by approximately \$1.3 million or 6.8% primarily due to the increases in passengers for 2004 over 2003.

Sales tax revenues increased by approximately \$8.1 million or 7.8% due to increased sales associated with the recovering economy in Utah.

The increase in Federal non-capital assistance of approximately \$1.6 million or 5.5% is due to an increase in the preventative maintenance funds which the Authority was eligible to receive in 2004 and increased federal funds received for reimbursement of the increased investment studies done in 2004 on the future commuter rail from Salt Lake to Ogden.

Interest Income decreased by \$932,000 or 41.9% due to the decrease in cash. During 2004 the Authority self funded for several federal projects which they were reimbursed for in January 2005. In addition, the Authority used all of the bond funds that were restricted for capital projects as of December 31, 2003.

Summary of Expenses for the year ended December 31:
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease) From 2004</u>	<u>Percent Increase/ Decrease</u>	<u>2003</u>
Operating expenses:					
Bus service	\$67,537	\$64,089	\$3,448	5.4%	\$61,341
Rail service	14,611	14,380	231	1.6%	13,967
Paratransit service	11,670	11,586	84	0.7%	11,684
Other services	866	728	138	19.0%	659
Operations support	17,399	18,270	(871)	-4.8%	17,895
Administration	16,948	15,596	1,352	8.7%	15,617
Major investment studies	1,499	7,058	(5,559)	-78.8%	4,657
Depreciation	46,354	48,040	(1,686)	-3.5%	44,829
Total operating expense	<u>176,884</u>	<u>179,747</u>	<u>(2,863)</u>	<u>-1.6%</u>	<u>170,649</u>
Interest expense	<u>11,454</u>	<u>9,814</u>	<u>1,640</u>	<u>16.7%</u>	<u>10,276</u>
Total expenses	<u>\$188,338</u>	<u>\$189,561</u>	<u>-\$1,223</u>	<u>-0.6%</u>	<u>\$180,925</u>

During 2005 bus service expenses increased by approximately \$3.4 million or 5.4% due primarily to a large increase in fuel costs. (the average fuel price went from \$1.27 to \$1.89 per gallon or a 48% increase)

The \$.87 million decrease in operations support and the \$1.35 million increase in administration costs was primarily due to a reorganization and splitting of some departments from operations support to administration.

The transition from planning type activities to construction of the commuter rail line is reflected in and is responsible for the approximately \$5.6 million or 78% decrease in major investment studies expenses.

Depreciation expense decreased by approximately \$1.7 million or 3.5% due to equipment and computer programs that became fully depreciated and therefore not longer have depreciation expense.

Interest expense increased by approximately \$1.6 million or 16.7% due to the \$175 million bond which was issued in 2005.

During 2004 operating expenses for bus service increased by approximately \$2.7 million or 4.5% primarily due to rising fuel costs (the Authority's average fuel went from \$0.96 to \$1.27 per gallon or a 32% increase), labor costs which increased due to a new labor contract and normal administrative labor increases.

Rail service expenses increased approximately \$413,000 or 3% primarily due to a full year of operating the medical center rail line which opened in September of 2003, increased costs per kilowatt hour of 9.5% for propulsion power, and labor increases similar to bus service.

Major investment studies expenses increased approximately \$2.4 million or 51.6% due to studies and preliminary engineering for a future commuter rail line from Salt Lake to Ogden.

Depreciation expense increases of approximately \$3.2 million or 7.2 % are primarily due to the addition of the medical center light rail line to the depreciable asset base in late 2003. This added approximately \$3 million to the yearly depreciation for 2004.

Interest expenses decreases of approximately \$462,000 or 4.5% are due to the reduction in long term debt, primarily the retirement of a \$65 million bond in December 2003.

Capital Asset Activity:

During 2005 the Authority expended approximately \$124 million for capital assets. The most significant expenditures were \$93 million for construction of the commuter rail line and purchase of land along the rail right of way. Expenditures of approximately \$27 million were for the purchase of revenue vehicles and associated parts. An addition \$1 million was expended on the construction of a new light rail station. (Readers wanting additional information should refer to note 4 in the notes to financial statements.)

During 2004 the Authority expended approximately \$44 million for capital assets. The most significant expenditures were \$19.3 million for revenue vehicles including 29 expansion light rail vehicles from Santa Clara Valley Transportation Authority and 15 over the road coaches to replace vehicles running express service. Expenditures of \$13.5 million were for rail and bus facilities which included the expansion of the light rail storage yard, a new maintenance of way facility and expansion of the light rail vehicle repair facility. Other significant capital expenditures were \$4.8 million for continued construction of the Salt Lake intermodal center due to open in 2005 and \$3.7 million for a new communication system. (See notes to financial statements)

Debt Administration:

The Authority's underlying bond rating as reported by Standard and Poor's remained at 'AA' and Aa3 by Moody's.

During 2005 the Authority issued the following bonds:

2005A Series: \$20,630,000

Advanced refunding of \$21,300,000 of the 1997 Series bond for a net present value savings of \$1,367,537.

2005B Series: \$175,000,000

Construction of the commuter rail line.

(Readers wanting additional information should refer to Note 8 in the Notes to Financial statements)

During 2004 there were no bonds issued or retired by the Authority. (see notes to financials)

Authority's significant activities:

During 2005 the Authority commenced the construction of the commuter rail line to Ogden due to open in 2008. The Authority submitted a Full Funding Grant Agreement (FFGA) for the commuter rail line to the Federal Transit Administration (FTA) in August 2005. In April 2006 the FTA submitted the FFGA to Congress for the 60 day comment period prior to expected approval.

The Authority also opened a new light rail station at 900 South in Salt Lake City and has put 10 of the newly acquired Light rail vehicles into service to help handle the large increase in passengers on the light rail line.

The Salt Lake intermodal center was opened in July 2005. This will eventually be a station for the commuter rail line and be connected to the light rail line.

During 2004 the Authority focused considerable efforts on planning and engineering activities for the future commuter rail line from Salt Lake to Ogden and additional extensions to the light rail service. The Authority completed the Final Environmental Impact Study (FEIS) for the commuter rail line and submitted it to the Federal Transit Administration (FTA) for review. In April 2005 the Authority received a Record Of Decision and acceptance of the FEIS from FTA.

The Authority also expanded the light rail storage yard to accommodate an additional 29 light rail vehicles, built a new maintenance of way facility and expanded the light rail vehicle repair facility.

Ridership Comparison (in thousands)

	2005	2004	Increase (Decrease) From 2004	Percent Increase/ Decrease	2003
Bus Service	21,608	21,740	(132)	-0.6%	21,281
Rail Service	12,998	11,453	1,545	13.5%	10,086
Paratransit service	487	502	(15)	-3.0%	523
Vanpools	1,070	841	229	27.2%	700
Total regular service	36,163	34,536	1,627	4.7%	32,590

Rail ridership in 2005 was up by 13.5% which is being attributed to the large increase in fuel prices.

Vanpool passengers are up by 27% due to a 23% increase in the number of vanpools. The increase in vanpools is due to an ever-increasing demand for this type of service. Many companies and government agencies are subsidizing part or all of the cost of this program and individuals can use pre-tax deductions to pay their costs. Vanpools allow participants to have more personal service, especially in areas where regular bus service may not be adequate for their needs.

Bus and rail ridership were both up for 2004 by 2.2% and 13.6% respectively. Rail service had a larger increase due to a full year of service of the new medical center light rail line which started service in late September 2003.

Vanpool passengers are up by 20% in 2004 due to a 19% increase in the number of vanpools.

UTAH TRANSIT AUTHORITY
COMPARATIVE STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 76,444,720	\$ 53,051,679
Receivables		
Sales Tax	30,925,657	28,032,409
Federal Grants	7,459,132	36,050,647
Other	6,690,353	4,414,998
Total Receivables	45,075,142	68,498,054
Parts and supplies inventories	9,655,222	8,108,933
Prepaid expenses	1,069,983	1,063,423
Total current assets	132,245,067	130,722,089
Noncurrent Assets:		
Designated assets for self-insurance-cash and cash equivalents	6,141,886	5,945,057
Restricted assets-cash and cash equivalents:		
Escrow Funds	128,036	125,315
Bond funds	119,693,614	1,812,915
Total restricted assets	119,821,650	1,938,230
Other assets - Prepaid pension	543,131	538,597
Property, facilities and equipment:		
Land and improvements	48,758,179	42,608,767
Right of ways	206,218,143	206,218,143
Facilities	427,310,111	420,840,243
Revenue vehicles	248,980,924	234,592,384
Other property and equipment	91,287,880	83,315,064
Construction in progress	97,264,622	16,192,737
Total property, facilities and equipment	1,119,819,859	1,003,767,338
Less accumulated depreciation and amortization	(291,481,067)	(252,902,980)
Net property, facilities and equipment	828,338,792	750,864,358
Total noncurrent assets	954,845,459	759,286,242
TOTAL ASSETS	1,087,090,526	890,008,331
LIABILITIES:		
Current Liabilities:		
Accounts payable-trade	16,646,257	8,106,249
Accrued liabilities, primarily payroll related	19,038,806	15,792,046
Accrued self-insurance liability	2,704,156	2,107,886
Current term portion of long term debt	4,090,000	3,900,000
Total current liabilities	42,479,219	29,906,181
Long Term Liabilities		
Long term debt	420,223,110	248,796,563
TOTAL LIABILITIES	462,702,329	278,702,744
NET ASSETS		
Invested in capital assets, net of related debt	505,892,844	498,167,795
Restricted for debt service	3,712,019	1,812,915
Restricted for insurance	128,036	125,315
Unrestricted	114,655,298	111,199,562
TOTAL NET ASSETS	\$ 624,388,197	\$ 611,305,587

See accompanying notes to financial statements

UTAH TRANSIT AUTHORITY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES:		
Passenger fares	\$ 21,282,499	\$ 20,074,587
Advertising	957,184	1,266,806
Total operating revenues	<u>22,239,683</u>	<u>21,341,393</u>
OPERATING EXPENSES:		
Bus service	67,536,664	64,089,452
Rail service	14,610,796	14,380,481
Paratransit service	11,670,170	11,585,593
Other service	866,127	728,443
Operations support	17,398,728	18,269,951
Administration	16,948,077	15,595,784
Major investment studies	1,499,069	7,058,073
Depreciation		
On assets acquired with Authority equity	13,831,293	14,181,213
On assets acquired with capital contributions	32,522,456	33,858,245
Total operating expenses	<u>176,883,380</u>	<u>179,747,235</u>
Excess of operating expenses over operating revenues	<u>(154,643,697)</u>	<u>(158,405,842)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenues	121,832,629	111,982,133
Federal preventative maintenance grants	25,349,419	24,428,546
Federal planning grants	3,117,145	6,780,349
Interest income	4,104,985	1,292,768
Other	744,290	621,587
Interest expense	(11,454,185)	(9,814,070)
Net non-operating revenues	<u>143,694,283</u>	<u>135,291,313</u>
LOSS BEFORE CONTRIBUTIONS	<u>(10,949,414)</u>	<u>(23,114,529)</u>
Capital contributions		
Federal Grants capital contributions	23,265,156	24,574,086
Local capital contributions	952,230	970,874
Disposal of assets	(185,362)	(47,845)
Total capital contributions	<u>24,032,024</u>	<u>25,497,115</u>
Increase in Net Assets for the year	13,082,610	2,382,586
Total Net Assets, January 1	<u>611,305,587</u>	<u>608,923,001</u>
TOTAL NET ASSETS, DECEMBER 31	\$ <u>624,388,197</u>	\$ <u>611,305,587</u>

See accompanying notes to financial statements

UTAH TRANSIT AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Passenger receipts	\$ 21,818,761	\$ 20,652,119
Advertising receipts	1,116,484	1,225,803
Payments to vendors	(35,839,554)	(36,680,025)
Payments to employees	(69,995,626)	(67,420,994)
Employee benefits paid	(26,993,997)	(25,105,911)
Other payments	(60,962)	(45,214)
Net cash used in operating activities	<u>(109,954,894)</u>	<u>(107,374,222)</u>
Cash flows from noncapital financing activities:		
Sales taxes	118,939,379	109,902,386
Federal preventative maintenance grants	25,349,419	24,428,546
Federal planning assistance grants	4,712,416	5,553,710
Net cash provided by noncapital financing activities	<u>149,001,214</u>	<u>139,884,642</u>
Cash flows from capital and related financing activities:		
Contributions for capital projects		
Federal	50,157,430	21,545,347
Local	952,230	970,874
Proceeds from the sale of revenue bonds	197,469,576	0
Payment of bond principal	(25,210,000)	(3,715,000)
Interest paid on revenue bond	(10,032,225)	(10,468,078)
Purchases of property, facilities and equipment	(114,984,716)	(51,920,733)
Proceeds from the sale of property	404,767	63,965
Net cash used in capital and related financing activities	<u>98,757,062</u>	<u>(43,523,625)</u>
Cash flows from investing activities:		
Interest on investments	3,669,908	1,307,888
Net increase (decrease) in cash and cash equivalents	<u>141,473,290</u>	<u>(9,705,317)</u>
	60,934,966	70,640,283
Cash and cash equivalents at end of year	<u><u>\$ 202,408,256</u></u>	<u><u>\$ 60,934,966</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (154,643,697)	\$ (158,405,842)
Adjustments to reconcile excess of operating expenses over operating revenues to net cash used in operating activities		
Depreciation	46,353,749	48,039,458
Other Revenues	638,191	595,284
Changes in assets and liabilities:		
Receivables	(1,736,306)	332,460
Parts and supplies inventories	(1,657,742)	(1,196,879)
Prepaid expenses	(11,094)	346,424
Accounts payable - trade	(676,035)	1,357,721
Accrued expenses	1,778,040	1,557,152
Net cash used in operating activities	<u><u>\$ (109,954,894)</u></u>	<u><u>\$ (107,374,222)</u></u>

At December 31, 2005 and December 31, 2004, accounts payable included \$11,768,419 and \$2,552,375, respectively, related to purchases of property and equipment.

See accompanying notes to financial statements

B) Standards for Reporting Purposes

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and only those Financial Accounting Standards Board pronouncements issued prior to November 30, 1989 in accordance with GASB Statement No. 20.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C) Federal Planning Assistance and Preventative Maintenance Grants

Federal planning assistance grants received from the Federal Transit Administration (the "FTA") and preventative maintenance grants are recognized as revenue and receivable during the period in which the related expenses are incurred and eligibility requirements are met. With the passage of the Transportation Equity Act for the twenty-first Century, (TEA21), FTA now allows capital grant funds to be used for preventative maintenance activities.

D) Federal Grants for Capital Expenditures

The U.S. Department of Transportation, through contracts between the Authority and the FTA, provides Federal funds of 50% to 93% of the cost of substantially all property and equipment acquired by the Authority. Grant funds for capital expenditures are earned and recorded as Capital Contribution Revenue when the capital expenditures are made and eligibility requirements are met.

E) Classification of Revenue and Expenses

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions such as passenger revenues and advertising revenues.

Operating Expense: Payments to Suppliers and to employees and on behalf of employees and all payments that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That use Proprietary Fund Accounting," and GASB Statement No. 34. Examples of non-operating revenues would be sales tax revenues, federal grants and investment income.

Non-operating expenses: Payments that result from transactions defined as capital and related financing, non-capital financing, or investing activities.

N) Budgetary and Accounting Controls

The Authority's annual budget is approved by the Board of Trustees as provided for by law. Operating and non-operating revenues and expenditures are budgeted on the accrual basis except depreciation. Capital expenditures and grant reimbursements are budgeted on a project basis. For multi-year projects, each year the expected expenditures for that year as well as related grant reimbursements are re-budgeted.

The Authority adopts its annual budget in December of the preceding fiscal year based on recommendations of staff and the Board Planning and Development Committee.

The first step in developing the Authority's budget is a review of the Transit Development Program and Long Range Financial Plan. This plan then acts as a focus for the development of programs and objectives. Concurrent with the development of programs and objectives, revenues for the coming year are estimated. The estimates of the coming year's revenues are then used as a guide for the Authority to determine the amount of change in service to be provided in the following year. Once the level of service for the coming year is determined, each manager develops a departmental budget.

The departmental budgets are then combined to form a preliminary budget request.

The Executive staff reviews the programs, objectives and requests to balance the total budget with the project revenues and service requirements and priorities. Once the preliminary budget is balanced, the Board of Trustees' Planning and Development Committee reviews the budget request.

Within 30 days after the tentative budget is approved by the Board, and at least 30 days before the Board adopts its final budget, the Board shall send a copy of the tentative budget, a signature sheet, and notice of the time and place for a budget hearing to the chief administrative officers and legislative bodies of each municipality and unincorporated county area within the district of the Authority.

Within 30 days after it is approved by the Board and at least 30 days before the Board adopts its final budget, the Board shall send a copy of the tentative budget to the governor and the Legislature for examination and comment.

Before the first day of each fiscal year, the Board shall adopt the final budget by an affirmative vote of a majority of all the trustees. Copies of the final budget shall be filed in the office of the Authority. If for any reason the Board shall not have adopted the final budget on or before the first day of any fiscal year, the tentative budget for such year, if approved by formal action of the Board, shall be deemed to be in effect for such fiscal year until the final budget for such fiscal year is adopted.

The Board may, by an affirmative vote of a majority of all trustees, adopt an amended final budget when reasonable and necessary, subject to any contractual conditions or requirements existing at the time the need for such amendment arises.

Individual department budgets are monitored for authorized expenditures on a department-total rather than department line-item basis.

The Board must approve all increases or decreases to the net operating expense line, total capital budget line and total operating revenue line of the Authority's operating and capital budgets.

The Authority's budgetary process follows Section 17A-1, Part 5, of the Utah Code Annotated, as amended. The annual budget is submitted to the State Auditor's Office within 30 days of adoption.

2005 Statement of Actual Revenues and Expenses Compared to Budget

REVENUES	ACTUAL	BUDGET	VARIANCE
PASSENGER REVENUE	21,282,499	21,746,660	(464,161)
ADVERTISING	957,184	1,465,896	(508,712)
SALES TAX	121,832,629	116,684,112	5,148,517
FEDERAL NON-CAPITAL ASSISTANCE	28,466,564	24,428,000	4,038,564
INVESTMENT INCOME	4,104,985	1,625,514	2,479,471
OTHER INCOME	744,290	735,005	9,285
TOTAL REVENUES	177,388,151	166,685,187	10,702,964
OPERATING EXPENSES	ACTUAL	BUDGET	VARIANCE
BUS SERVICES	67,536,664	66,601,710	(934,954)
RAIL SERVICES	14,610,796	14,856,941	246,145
PARATRANSIT SERVICES	11,670,170	12,535,819	865,649
OTHER SERVICES	866,127	914,364	48,237
OPERATIONS SUPPORT	17,398,728	17,581,225	182,497
ADMINISTRATION (including interest)	28,402,262	40,235,078	11,832,816
MAJOR INVESTMENT STUDIES	1,499,069	4,799,509	3,300,440
TOTAL EXPENSES (excluding depreciation)	141,983,816	157,524,646	15,540,830
CAPITAL EXPENDITURES	ACTUAL	BUDGET	VARIANCE
REVENUE VEHICLES	19,767,561	21,937,310	2,169,749
INFORMATION AND COMMUNICATION SYSTEMS	1,991,296	9,673,693	7,682,397
FACILITIES, BUS MAINTENANCE & OFFICE EQUIP.	3,823,671	4,744,200	920,529
MAJOR STRATEGIC PROJECTS	508,223	7,591,215	7,082,992
TRAX & COMMUTER RAIL	98,110,006	235,747,846	137,637,840
TOTAL CAPITAL EXPENDITURES	124,200,757	279,694,264	155,493,507
SOURCE OF FUNDS FOR CAPITAL EXPENDITURES	ACTUAL	BUDGET	VARIANCE
CAPITAL GRANTS	23,265,156	88,255,813	65,258,110
LOCAL MATCH INCLUDING FINANCIAL	99,983,371	182,049,153	81,846,529
CONTRIBUTED CAPITAL	952,230	9,389,298	8,388,868
TOTAL	124,200,757	279,694,264	155,493,507

Note: Depreciation expense is not a budgeted item.

O) Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform them to the 2005 financial statement presentation.

3. **Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments are carried at fair value and consist of following at December 31:

Cash and Cash Equivalents:	2005	2004
Demand Deposits	\$ (1,909,061)	\$ (6,327,615)
Repurchase Agreement	6,598,513	9,111,787
Utah Public Treasurers' Investment Fund	71,627,822	50,149,244
Other Cash	127,446	118,263
Total	76,444,720	53,051,679
Escrow fund, certificate of deposit - restricted	128,036	125,315
Utah Public Treasurers' Investment Fund:		
Self-insurance - designated	6,141,886	5,945,057
Bond funds - restricted	119,693,614	1,812,915
Total Cash and Cash Equivalents	\$ 202,408,256	\$ 60,934,966

The Authority is required to set up certain accounts in connection with the issuance of bonds which are restricted as to their use per the bond covenants. Investments restricted for self insurance are restricted internally by the Board of Trustees and have no outside restrictions.

Deposits

Deposits and investments for the Authority are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Authority's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Authority to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

At December 31, 2005 and 2004 the balances in the Authority's bank demand deposit accounts and certificate of deposit accounts according to the bank statements totaled approximately \$238,000 and \$235,000 respectively of which \$100,000 were covered by Federal depository insurance. The difference between this balance and the amount recorded in the financial statements is primarily due to outstanding checks.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Authority's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The Authority is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the years ended December 31, 2005 and 2004 the Authority had investments of \$197,463,322 and \$57,907,216 respectively with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the fund to be invested.

4. Property, Facilities and Equipment

Construction in Progress of \$97,264,622 and \$16,192,737 at December 31, 2005 and 2004, respectively, consists of costs incurred in connection with the Authority's rail projects. These costs consist principally of engineering, design and construction work associated with obtaining the right-of-way and construction of the projects and new radio system development.

	Beginning Balance 12/31/2004	Increases	Transfers	Decreases	Ending Balance 12/1/2005
Capital assets not being depreciated:					
Land	\$ 35,606,371	\$ 6,204,468	\$ -	\$ (266,144)	\$ 41,544,695
Rights of Way	206,007,055	211,088	-	-	206,218,143
Construction in progress	16,192,737	87,236,426	(6,164,541)	-	97,264,622
Total capital assets not being depreciated	257,806,163	93,651,982	(6,164,541)	(266,144)	345,027,460
Other capital assets:					
Facilities	420,840,243	1,984,666	4,519,541	(34,339)	427,310,111
Revenue Vehicles	234,592,384	21,002,851	71,742	(6,686,053)	248,980,924
Other property and equipment	83,315,064	7,561,258	1,573,258	(1,161,700)	91,287,880
Land improvements	7,213,484	-	-	-	7,213,484
Total other capital assets	745,961,175	30,548,775	6,164,541	(7,882,092)	774,792,399
Less accumulated depreciation for:					
Facilities	(81,161,270)	(20,647,989)	-	34,339	(101,774,920)
Revenue Vehicles	(102,204,533)	(16,637,970)	-	6,580,284	(112,262,219)
Other property and equipment	(62,336,574)	(9,062,259)	-	1,161,040	(70,237,793)
Land improvements	(7,200,603)	(5,532)	-	-	(7,206,135)
Total accumulated depreciation	(252,902,980)	(46,353,750)	-	7,775,663	(291,481,067)
Other capital assets, net	493,058,195	(15,804,975)	6,164,541	(106,429)	483,311,332
Total capital assets, net	\$ 750,864,358	\$ 77,847,007	\$ -	\$ (372,573)	\$ 828,338,792

	Beginning Balance 12/31/2003	Increases	Transfers	Decreases	Ending Balance 12/1/2004
Capital assets not being depreciated:					
Land	\$ 34,549,764	\$ 1,036,439	\$ 77,121	\$ (56,953)	\$ 35,606,371
Rights of Way	206,007,055	-	-	-	206,007,055
Construction in progress	9,182,442	13,637,879	(6,575,389)	(52,195)	16,192,737
Total capital assets not being depreciated	249,739,261	14,674,318	(6,498,268)	(109,148)	257,806,163
Other capital assets:					
Facilities	403,823,978	11,692,664	5,323,601	-	420,840,243
Revenue Vehicles	228,379,657	14,459,100	532,270	(8,778,643)	234,592,384
Other property and equipment	81,334,802	3,376,327	642,397	(2,038,462)	83,315,064
Land improvements	7,213,484	-	-	-	7,213,484
Total other capital assets	720,751,921	29,528,091	6,498,268	(10,817,105)	745,961,175
Less accumulated depreciation for:					
Facilities	(60,866,047)	(20,295,223)	-	-	(81,161,270)
Revenue Vehicles	(94,157,446)	(16,825,730)	-	8,778,643	(102,204,533)
Other property and equipment	(53,461,898)	(10,912,958)	-	2,038,282	(62,336,574)
Land improvements	(7,195,056)	(5,547)	-	-	(7,200,603)
Total accumulated depreciation	(215,680,447)	(48,039,458)	-	10,816,925	(252,902,980)
Other capital assets, net	505,071,474	(18,511,367)	6,498,268	(180)	493,058,195
Total capital assets, net	\$ 754,810,735	\$ (3,837,049)	\$ -	\$ (109,328)	\$ 750,864,358

5. Federal Financial Assistance

The Authority receives a portion of its funding from Federal preventative maintenance grants, which totaled \$25,349,419 and \$24,428,546 for the years ended December 2005 and 2004 respectively.

The Authority had grants for capital expenditures authorized but where eligibility requirements are not met yet amounting to \$10,102,000 at December 31, 2005 which are not reflected in the accompanying financial statements. The Authority will be required to provide matching funds of 7% to 50%, depending on grant contracts, totaling \$2,591,104 related to these grants.

6. Self Insurance - Claims Liability

Changes in the accrued claims liability in 2005 and 2004 were:

	Beginning-of- Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2005	\$2,107,886	\$2,418,004	\$1,821,734	\$2,704,156
2004	\$2,115,340	\$1,354,300	\$1,361,754	\$2,107,886

Based on past historical information, estimated Incurred But Not Reported (I.B.N.R.) claims were included in the year-end accrued liabilities in the amount of:

	<u>2005</u>	<u>2004</u>
Worker's Compensation	\$ 217,050	\$ 251,740
Auto and General Liability	303,500	304,426
Environmental	<u>100,049</u>	<u>102,391</u>
Total I.B.N.R.	<u>\$ 620,599</u>	<u>\$ 658,557</u>

7. Employee Benefit Plans

Pension Plans

The Utah Transit Authority Employees Retirement Plan is a single-employer defined benefit plan that covers all eligible employees and provides retirement benefits to plan members and their beneficiaries. The Plan also provides disability benefits to plan members. The plan's provisions were adopted by a resolution of the Authority's Board of Trustees which appoints those who serve as trustees of the plan. Any amendments to the plan are adopted by a resolution of the Authority's Board of Trustees.

The plan issued a publicly available financial report that includes financial statements and required supplementary information for that plan. This report may be obtained by writing:

Comptroller's Office
Utah Transit Authority
P.O. Box 30810
Salt Lake city, UT 84130

Funding policy and annual pension cost:

Contributions to the plan are recommended by an annual actuary report and are approved by the Authority's Board of Trustees. The Authority's annual cost for the current year and related information for the plan is as follows:

Contribution Rates:

Plan members	None
Authority	Annually determined by actuary
Contributions made	\$7,399,922
Annual required contributions	\$7,399,922
Interest on net pension obligations	(\$37,675)
Adjustment to annual required contributions	\$32,757
Annual pension cost	\$7,395,004
Actuarial valuation date	1/1/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll 25 year open
Remaining amortization period	25 years
Asset valuation method	Five-Year Smoothing
Actuarial Assumptions	
Investment rate of return	7.00%
Projected salary increase	3.75%
Inflation rate assumption	3.00%

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Increase (Decrease) Net Pension Obligation	Balance Net Pension Obligation
EMPLOYEE	12/31/2005	\$7,395,004	100.00%	(\$4,918)	(\$543,134)
RETIREMENT	12/31/2004	\$7,106,994	100.00%	(\$4,874)	(\$538,216)
PLAN	12/31/2003	\$7,127,410	100.00%	(\$4,829)	(\$533,342)

Schedules of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Excess of Assets over AAL (a-b)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a-b)/c)
1/1/05	\$72,141,837	\$121,287,462	(\$49,145,625)	59.48%	\$68,435,204	(71.81%)
1/1/04	\$64,507,638	\$110,997,337	(\$46,489,699)	58.12%	\$66,953,289	(69.44)%
1/1/03	\$55,426,308	\$103,859,204	(\$48,432,896)	53.37%	\$65,963,428	(73.42)%

B) Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As part of its fiduciary role, the Authority has an obligation of due care in selecting the third party administrators. In the opinion of management, the Authority has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan. The deferred compensation assets are held by third party plan administrators and are generally invested in money market funds, stock or bond mutual funds, or guarantee funds as selected by the employee.

8. Long Term Debt

Long-term debt for the years ended December 2005 and 2004 was as follows:

	Beginning Balance 12/31/2004	Additions	Reductions	Ending Balance 12/31/2005	Amount Due within One Year
Bonds:					
1997 revenue bond	\$ 23,985,000	\$ -	\$ (22,160,000)	\$ 1,825,000	\$ 890,000
2002A revenue bond	174,500,000	-	(3,050,000)	171,450,000	3,200,000
2002B revenue bond	50,000,000	-	-	50,000,000	-
2005A revenue bond	-	20,630,000	-	20,630,000	-
2005B revenue bond	-	175,000,000	-	175,000,000	-
	<u>248,485,000</u>	<u>195,630,000</u>	<u>(25,210,000)</u>	<u>418,905,000</u>	<u>4,090,000</u>
Unamortized premium 2002A bond	4,211,563	-	(592,623)	3,618,940	-
Unamortized premium 2005A bond	-	1,919,178	(70,183)	1,848,995	-
Unamortized premium 2005B bond	-	1,256,674	(39,890)	1,216,784	-
Unamortized refunding 2005A bond	-	(996,386)	44,490	(951,896)	-
Unamortized expenses 2005A bond	-	(339,890)	15,177	(324,713)	-
Total bonds	<u>\$ 252,696,563</u>	<u>\$ 197,469,576</u>	<u>\$ (25,853,029)</u>	<u>\$ 424,313,110</u>	<u>\$ 4,090,000</u>

	Beginning Balance 12/31/2003	Additions	Reductions	Ending Balance 12/31/2004	Amount Due within One Year
Bonds:					
1997 revenue bond	\$ 24,800,000	\$ -	\$ (815,000)	\$ 23,985,000	\$ 850,000
2002A revenue bond	177,400,000	-	\$ (2,900,000)	174,500,000	3,050,000
2002B revenue bond	50,000,000	-	\$ -	50,000,000	-
	<u>252,200,000</u>	<u>-</u>	<u>(3,715,000)</u>	<u>248,485,000</u>	<u>3,900,000</u>
Unamortized premium on 2002A bond	4,883,386	-	(671,823)	4,211,563	-
Total bonds	<u>\$ 257,083,386</u>	<u>\$ -</u>	<u>\$ (4,386,823)</u>	<u>\$ 252,696,563</u>	<u>\$ 3,900,000</u>

Sales Tax and Transportation Revenue Bonds. The Authority issued bonds where the Authority pledges revenues derived from the ownership and operation of the Authority's public transit system and from certain sales tax receipts after payment of Operations and Maintenance Expenses and moneys on deposit in the funds and accounts established under the Indenture. Revenue bonds outstanding at year-end are as follows:

Series 1997A	Interest Rates	Original Amount
Purpose - Acquisition, construction, and equipping of a fixed guideway public transit system and related improvements.	4.00 - 5.40%	\$27,740,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2006	890,000	86,243	976,243
2007	935,000	44,412	979,412
Total	\$ 1,825,000	\$ 130,655	\$ 1,955,655

In 2005, the Authority's Series 2005A bonds were issued to refund in advance of their maturity \$21,310,000 of the outstanding Series 1997A bonds which mature on December 15 of the years 2008 and 2009; December 15, 2012, December 15, 2016; and December 15, 2022.

Average Annual Cash Flow Savings	\$ 133,201.84
Gross Debt Service Savings	\$ 1,470,883.13
Net Present Value Savings	\$ 1,367,537.15
Savings as a percent of bonds refunded	6.42%

Proceeds of the Series 2005A bonds were deposited in an irrevocable trust escrow fund consisting of U.S. Treasury Certificates of Indebtedness. The investments held in the escrow fund will bear interest and mature in amounts sufficient to pay the interest falling due on the 1997A Refunded Bonds through December 2007 and the redemption price of the 1997A Refunded Bonds, as such become due and payable on December 15, 2007.

The debt service of the 1997A Refunded Bonds are as follows:

	Principal	Interest	Premium	Total
2006	\$ -	\$ 1,123,591	\$ -	\$ 1,123,591
2007	\$ 21,310,000	\$ 1,123,591	\$ 213,100	\$ 22,646,691
	\$ 21,310,000	\$ 2,247,182	\$ 213,100	\$ 23,770,282

Series 2002A

	Interest Rates	Original Amount
Purpose - Acquisition of approximately 175 miles of railroad rights-of-way and other transit related projects	4.00 - 5.00%	\$180,200,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2006	3,200,000	8,291,406	11,491,406
2007	3,350,000	8,127,656	11,477,656
2008	3,500,000	7,987,031	11,487,031
2009	3,650,000	7,838,906	11,488,906
2010	3,850,000	7,651,406	11,501,406
2011-2015	22,200,000	35,254,906	57,454,906
2016-2020	28,000,000	29,460,859	57,460,859
2021-2025	35,850,000	21,622,500	57,472,500
2026-2030	46,000,000	11,442,750	57,442,750
2031-2032	21,850,000	1,106,250	22,956,250
Total	<u>\$ 171,450,000</u>	<u>\$ 138,783,671</u>	<u>\$ 310,233,671</u>

Series 2002B

	Interest Rates	Amount
Purpose - Construction costs related to acquisition, construction, and equipping a Fixed Public Transit System and related improvements.	Weekly Variable Ranged between 0.45% - 3.40% for 2005 0.87% - 1.95% for 2004	\$50,000,000

These bonds are thirty-year bonds maturing in the year 2032. The interest is payable monthly and is determined by the weekly variable rates.

Revenue bond debt service requirements to maturity, including interest, are as follows:

Using the interest rate as of 12/31/2005 of 3.40%

Year Ending December 31	Principal	Interest	Total
2006	\$ -	\$ 1,700,000	\$ 1,700,000
2007	-	1,700,000	1,700,000
2008	-	1,700,000	1,700,000
2009	-	1,700,000	1,700,000
2010	-	1,700,000	1,700,000
2011-2015	-	8,500,000	8,500,000
2016-2020	-	8,500,000	8,500,000
2021-2025	-	8,500,000	8,500,000
2026-2030	-	8,500,000	8,500,000
2031-2032	50,000,000	3,400,000	53,400,000
Total	<u>\$ 50,000,000</u>	<u>\$ 45,900,000</u>	<u>\$ 95,900,000</u>

Series 2005A

Interest Rates

Original
Amount

Purpose - Refunding of 1997 Series Bond

3.25 - 5.0%

\$20,630,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2006	\$ -	\$ 1,016,625	\$ 1,016,625
2007	-	1,016,625	1,016,625
2008	970,000	1,000,488	1,970,488
2009	1,015,000	958,975	1,973,975
2010	1,060,000	913,213	1,973,213
2011-2015	6,080,000	3,770,344	9,850,344
2016-2020	7,775,000	2,041,846	9,816,846
2021-2022	3,730,000	198,450	3,928,450
Total	<u>\$ 20,630,000</u>	<u>\$ 10,916,566</u>	<u>\$ 31,546,566</u>

Series 2005B

Interest Rates

Original
Amount

Purpose - Construction of Commuter Rail North

3.5 - 5.0%

\$175,000,000

Revenue bond debt service requirements to maturity, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2006	\$ -	\$ 9,495,187	\$ 9,495,187
2007	1,850,000	7,807,688	9,657,688
2008	1,925,000	7,741,625	9,666,625
2009	2,000,000	7,672,938	9,672,938
2010	2,050,000	7,602,063	9,652,063
2011-2015	11,625,000	36,752,375	48,377,375
2016-2020	14,525,000	33,875,063	48,400,063
2021-2025	24,450,000	29,852,813	54,302,813
2026-2030	35,325,000	22,909,094	58,234,094
2031-2035	81,250,000	11,480,188	92,730,188
Total	<u>\$ 175,000,000</u>	<u>\$ 175,189,034</u>	<u>\$ 350,189,034</u>

9. Commitments and Contingencies

The Authority is a defendant in various matters of litigation and has other claims pending as a result of activities in the ordinary course of business. Management and legal counsel believe that by reason of meritorious defense, by insurance coverage or statutory limitations, these contingencies will not result in a significant liability to the Authority in excess of the amounts provided as accrued self-insurance liability in the accompanying financial statements.

The Authority also has commitments during 2006 of approximately \$11.3 million for rail cab-cars under construction and approximately \$74 million for construction of the commuter rail. The majority of these will be funded from federal grants. The remainder will be funded from Authority net assets.

10. Subsequent Events

In early 2006 the Authority made commitments to purchase 10- 30 ft. buses for \$2.7 million, 31 - 40 ft. buses for \$10.2 million and 11 locomotives for \$29 million.

In 2006 the Utah State Legislature revised the Utah Governmental Immunity Act and changed the maximum statutory liability in any one accident to \$2,000,000.

In early 2006 the Authority redeemed all of the \$50,000,000 in Series 2002B bonds.

11. New Accounting Pronouncements

During May 2004 the GASB issued Statement No. 44 *Economic Condition Reporting: The Statistical Section*. This Statement establishes and modifies requirements related to the supplementary information presented in a statistical section. The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition. Statistical section information should be presented in five categories - financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. The provisions of this Statement are effective for fiscal periods beginning after June 15, 2005. The Authority has not determined the impact, if any, that this Statement will have on its financial statements.

UTAH TRANSIT AUTHORITY

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/Pass-Through Grantor/ Program Title		Federal CFDA Number	Grant Number	Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Federal Transit Administration Direct Programs:				
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0028	\$ 1,545,265
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0038	137,106
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0043	2,067,714
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0044	(2,371)
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0046	4,888,220
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0047	6,033,969
FTA	Federal Transit—Capital Investment Grant	20.500	UT-03-0050	3,599,772
				<u>18,269,675</u>
FTA	Federal Transit—Formula Grant	20.507	UT-90-X031	528,560
FTA	Federal Transit—Formula Grant	20.507	UT-90-X038	366,702
FTA	Federal Transit—Formula Grant	20.507	UT-90-X040	438,356
FTA	Federal Transit—Formula Grant	20.507	UT-90-X042	1,959,771
FTA	Federal Transit—Formula Grant	20.507	UT-90-X045	28,533,752
				<u>31,827,141</u>
FTA	ITS Planning	20.514	UT-26.7004	<u>60,781</u>
Pass-Through—Utah Department of Transportation:				
F.H.W.A.	Highway Planning and Construction	20.205	51400	143,948
F.H.W.A.	Highway Planning and Construction	20.205	51401	335,234
F.H.W.A.	Highway Planning and Construction	20.205	51402	178,965
				<u>658,147</u>
Total U.S. Department of Transportation				<u>50,815,744</u>
<u>U.S. DEPARTMENT OF ENERGY</u>				
Pass-Through—Utah Department of Natural Resources:				
	State Energy program	81.041	05-1530	<u>25,000</u>
Total U.S. Department of Energy				<u>25,000</u>
TOTAL FEDERAL AWARDS EXPENDED				<u>\$ 50,840,744</u>

The accompanying notes are an integral part of the supplementary schedule of Expenditures of Federal Awards.

UTAH TRANSIT AUTHORITY

NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2005

Basis of Accounting—The Supplementary Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Federal awards provided to subrecipients are treated as an expenditure when paid to the subrecipient.

Reporting Entity—The Authority administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the Authority.

Pass-Through Awards—The Authority receives certain expenditures of federal awards from pass-through awards of various state and other governmental agencies. The total amount of such pass-through awards is included in the Supplementary Schedule of Expenditures of Federal Awards.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Utah Transit Authority:

We have audited the financial statements of Utah Transit Authority (the "Authority") as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated May 12, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

To the Board of Trustees of
Utah Transit Authority:

Compliance

We have audited the compliance of Utah Transit Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Authority's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not

UTAH TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Authority's major program cluster identified for the year ended December 31, 2005:

Federal Transit Cluster:	
CFDA #20.500	Federal Transit—Capital Investment Grant
CFDA #20.507	Federal Transit—Formula Grant
8. A threshold of \$1,525,222 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did qualify as a low-risk auditee under Section .530 of OMB Circular A-133.

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

None

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF FEDERAL AWARDS

None

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE GUIDELINES

The Board of Trustees of
Utah Transit Authority:

We have audited the financial statements of Utah Transit Authority (the Authority) for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. Our audit included test work on the Authority's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Issues.

The Authority did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of the Authority is responsible for the Authority's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Authority complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended for the information and use of the Board of Trustees, operations committee, management, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 12, 2006

May 12, 2006

Board of Trustees of
Utah Transit Authority

Dear Members of the Board of Trustees:

In planning and performing our audit of the financial statements of Utah Transit Authority (the "Authority") for the year ended December 31, 2005 (on which we have issued our report dated May 12, 2006), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Authority's internal control. Such consideration of the Authority's internal control would not necessarily disclose all matters in the Authority's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining internal control, and of the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this report. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Authority's internal control and its operations that we consider to be material weaknesses as defined above.

We did note other matters related to the Authority's internal control and certain other accounting, administrative or operating matters. Our principal observations and recommendations are summarized below.

Documentation of Changes to JD Edwards

Observation—The process for planning and executing changes to the JD Edwards environment is relatively well-defined. However, documentation stemming from this process is not consistently retained.

Recommendation—Formal agendas and minutes from the JD Edwards user groups should be created and maintained in a central location. Requirements for documentation of testing procedures conducted by each department should be defined. The results of these procedures should be submitted to administrators and maintained in a central location.

Managerial Approval of User Accounts

Observation—From a sample of 25 new hires in 2005, two employees with accounts in the Windows Network did not have corresponding managerial approval evidenced by signatures on the Human Resource Action Form (HRAF).

Recommendation—Existing processes for granting access based upon actions taken by HR should be enhanced. These processes should ensure that accounts are created only after the corresponding HRAF paperwork is received and reviewed to verify managerial approval.

JD Edwards Access Request

Observation—Requests for new user accounts and changes to existing user accounts within JD Edwards are submitted through a freeform e-mail. Requests for new accounts typically specify an existing user account to use a model for the new account.

Recommendation—Management should enhance the process for requesting the creation of user accounts on JD Edwards. Access requests should be role based. Any modification to standard roles should be documented and appropriate approvals should be recorded. User account permissions should be periodically reviewed to ensure that permissions remain appropriate. Finally, management should consider utilizing a formal form rather than freeform email, so that the necessary information for account creation and modification is consistently recorded.

NTD Purchased Transportation Data & Review

Observation—The FTA guidelines require that data which uses sampling be reviewed or audited for accuracy. However, if 100% of the data is known and no sampling is used, this is not required. The purchased transportation has 100% of the data known. Each month the totals are received from the purchased transportation services (PT) and then reviewed by accounting. The Office of Performance Operations should also review this like the other programs.

Recommendation—The Purchased Transportation Services (PT) data should be reviewed by the Office of Performance Operations (OPO). It would be more appropriate to receive the source data along with the monthly summaries from the PT units.

Recording Capabilities Of Money Counts

Observation—The computer, which shows the broadcast of the cash counts in the count room, did not record the counts.

Recommendation—The computer in the guard room should also have recording capabilities. Additionally, we recommend that more than one location be given broadcast and recording capabilities. This way, if one computer is down, another can be used to monitor and record the counts.

Payroll Controls- Inclusion of Notification E-mail in Personnel Files

Observation—According to HR policy, an e-mail is created to notify all associated personnel (i.e. union representatives, the civil rights manager and payroll) of a new hire or terminating employee. We noted in our testing that this e-mail was not always included within the personnel file. We recommend that a process be put in place to ensure that this e-mail is included.

Recommendation—HR should include a copy of the e-mail sent to the applicable parties in the related employees' files.

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CURRENT STATUS OF PRIOR YEAR COMMENTS

Accuracy of the NTD Database

Observation—It appears that a true random sample did not occur for the selection of Motor Bus run samples. Some of the selected runs during peak hours were missed and then replaced by the next run

which was not in peak hours. Additionally, the Automatic Passenger Counting System had some errors in it and did not give the Authority accurate data. This error in sampling resulted in errors in the accuracy of the test results.

Current Status—The Authority has implemented the recommendation.

Location of Backup Tapes

Observation—Backup data tapes are stored in Building 3, which is a location that is in close proximity to the primary computer room. This increases the risk that primary and backup copies of system data may be destroyed.

Current Status—The Authority has implemented the recommendation.

Documentation for Change Control

Observation—We reviewed change control procedures for the Authority's systems, including hardware and networking. We noted that the Authority lacks policies and procedures for changes to networking hardware and operating systems, most of which are dictated by the software vendors. There is little documentation for system testing activities. Management meets weekly to review and discuss system changes in these areas, but the management approval for these changes is generally not documented.

Weak or inconsistent change control processes could result in production systems that do not function in accordance with management's expectations. A lack of documented procedures surrounding change control increases the risk that unforeseen issues may occur that might disrupt critical business processes.

Current Status—See comment titled "Documentation of Changes to JD Edwards" above.

Business Continuity Plan

Observation—We noted that while the Authority has enhanced its Business Continuity Plan ("BCP") during the past year, there remains some areas that should be improved. The documentation does detail recovery procedures for the various systems and software applications, but does not include a business impact analysis. A business impact analysis generally describes the effect to the business of disruptions to the various systems and business processes, as well as the required timeframe for recovery of systems and processes. Alternate computing sites have not been identified. A testing exercise was conducted of the disaster recovery plans, but this exercise did not involve the recovery of computer systems to an alternate site. In addition, the IT department does not have a printed copy of the BCP available onsite or offsite.

An inadequate business continuity plan could result in the loss of critical information and/or extended periods of network downtime due to the lack of preparation in the event of a disaster. The risk of critical losses in the event of a disaster is significantly increased when a complete and thorough BCP is not available.

Current Status—The Authority has implemented the recommendation.

Physical Security of Backup Tapes

Observation—We noted that the backup computer media is stored in a bus maintenance facility located approximately 50 feet from the building in which the data center is located. The backup tapes are located in a room that is secured with a combination keypad, rather than a keycard device. Within the room, the

tapes are stored in unsecured cabinets and plastic bins. In addition, we noted that the locked room is accessible by at least seven IT personnel and several facilities personnel.

Storing backup media in an unsecured location could result in the loss of critical information if the media were damaged or stolen. In addition, the risk of inappropriate personnel having access to sensitive information about the Authority employees and the business itself is increased.

Current Status—The Authority has implemented the recommendation.

Password Policies

Observation—The network systems have not been configured to enforce strong password policies. Employees are allowed to use trivial passwords that could be easily compromised. We understand and acknowledge that this decision was made because of usability concerns with drivers, mechanics, and other UTA employees who use computers infrequently and have minimal system access. However, the systems also allow trivial passwords for other user accounts with broad or sensitive access privileges.

Weak or inconsistent password policies increase the risk of unauthorized access or change to the Authority's information systems. In addition, it increases the risk of unauthorized access to sensitive data which could have significant effects on business critical processes.

Current Status—The Authority has not implemented the recommendation.

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This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte & Touche LLP

**MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES
AND LIMITATIONS OF, INTERNAL CONTROL**

Utah Transit Authority

Year Ended December 31, 2005

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility—Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives—The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

Limitations—Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.



May 12, 2006

Board of Trustees of Utah Transit Authority

Dear Members of the Board of Trustees:

Management responses to Deloitte & Touche's observations and recommendations are summarized below.

DOCUMENTATION OF CHANGES TO JD EDWARDS

The Technology Office is in the process of formalizing JDE changes and centralizing the documentation. The recommendation will be completed in 2006 fiscal year.

MANAGERIAL APPROVAL OF USER ACCOUNTS

Management agrees with the recommendation and has taken steps to implement enhanced procedures for granting access.

JD EDWARDS ACCESS REQUEST

As part of UTA's internal QPMS process and the ISO standards, the Technology Office has implemented a Change Request form in support of both recommendations

NTD PURCHASED TRANSPORTATION DATA REVIEW

Management agrees with the recommendation and will have the Office of Performance Operations review the data in addition to the review done by accounting.

RECORDING CAPABILITIES OF MONEY COUNTS

The current system is a direct line feed from the cameras to a monitor. In the security departments plan for this year, is the replacement of these cameras along with providing the ability to digitally record their images. Also will be the ability for a second monitoring station.

PAYROLL CONTROLS – INCLUSION OF NOTIFICATION E-MAIL IN PERSONNEL FILES

Management has already implemented this recommendation.

UTAH TRANSIT AUTHORITY